

FD ARH-935  
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**Project Activities Completion Report**


**COMMERCIAL FARMING SYSTEMS PROJECT  
(517-0214)**

**Rural Financial Services/Bridge Credit Fund/  
Agricultural Development Foundation**

**AGENCY FOR INTERNATIONAL DEVELOPMENT**

**Santo Domingo, Dominican Republic**

**UNITED STATES GOVERNMENT  
MEMORANDUM**

**Date:** February 16, 1993  
**From:** TIO/Larry Laird   
**To:** PDO/Doug Chiriboga  
**Subject:** Project Activities Completion Report - Commercial Farming System;  
Project 517-0214 - Rural Financial Services/Bridge Credit  
Fund/Agricultural Development Foundation

Attached is the subject PACR for your review and approval, cleared by the Project Committee.

Attachment: a/s

**PROJECT ASSISTANCE COMPLETION REPORT**

**Commercial Farming Systems, 517-0214**

**Agricultural Development Foundation Component**

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## **A. Brief Project History**

By the mid-1980's it was evident that non-traditional agricultural products offered great economic promise for the Dominican Republic, but critical production constraints existed in the development and dissemination of modern production technologies. Public sector researchers were concentrating on basic grains, domestic food crops, and traditional export crops. Little attention was being given to non-traditional export possibilities. A mechanism was needed to identify economically significant production opportunities and problems, and to direct research efforts towards the greatest potential returns. The Commercial Farming Systems (CFS) Project was authorized on June 1, 1987.

The CFS project goal was to contribute to sustained and equitably distributed economic growth by accelerating the movement of the Dominican agricultural sector into non-traditional crops, thereby increasing small farmer incomes and rural employment, and earning or saving foreign exchange. The overall purpose was to increase production of non-traditional crops through expanded farmer linkages with agribusiness, and direct access to credit and improved technology.

The Project included a Grant to the Agricultural Development Foundation (ADF), to focus private sector resources and energies on non-traditional export production research. Two other elements of the CFS Project, a bridge credit program and a rural financial services program, are reviewed in separate PACRs.

The ADF Grant Agreement was signed on July 10, 1987, providing \$2,635,000 and calling for \$7,692,000 in GODR and local private counterpart contributions, bringing this component's LOP total to \$10,327,000 over a five-year Project period.

The purpose of the ADF component was to promote economically justifiable research in non-traditional crops, to establish a rapid-response capability for agribusiness and farmers, to improve the quality of research through operation of a technical information center, and to establish an endowment fund to support the Foundation. Ninety-six percent (\$2,527,000) of the Grant was utilized, with expenses generally running close to estimates.

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## B. Delivery of Project Inputs

The schedule of Grant-funded inputs, planned versus actual expenditures, is as follows:

<u>INPUT</u>	<u>PLANNED</u> <u>US\$ Costs</u>	<u>ACTUAL</u> <u>US\$ Costs</u>
1. <u>Technical Assistance</u>	\$1,658,000	\$1,446,740
- Long Term	890,000	
- Short Term	768,000	
2. <u>Commodities</u>	\$ 133,000	\$ 146,085
- Vehicles	70,000	
- Equipment	63,000	
3. <u>Training</u>		
- Trainees	\$ 498,000	\$ 129,554
4. <u>ADF Operations</u>	\$ 180,000	\$ 246,997
5. <u>Research Grants</u>	\$ 96,000	\$ 70,138
6. <u>Evaluation and Audits</u>	\$ 70,000	\$ 17,377

### C. Counterpart Contribution

Counterpart totalling the Peso equivalent of US\$7,692,000 <sup>(1)</sup> was to be received from three sources and put to three uses, as follows:

Source	Amount (RD\$)	Use
GODR	15,000,000	Endowment Fund
Private Sector	3,700,000	" "
Endowment Income	7,120,800	Research Grants
Endowment Income	1,872,000	ADF Operations

<sup>(1)</sup> RD\$ 3.60 = US\$1.00, April 1988.

The total counterpart planned was Pesos RD\$27,692,800 equivalent to US\$7,692,444. Of this, the equivalent of US\$5,194,000 was to be paid into the Endowment Fund. As it turned out, in the ensuing four years the ADF was able to more than double the Peso endowment (from RD\$ 18,700,000 to over RD\$40,000,000), but the exchange rate fall from 3.60 to 12.50 to the Dollar wiped out this gain in Dollar terms, leaving the fund at about \$2,720,000 today, slightly more than half of its Dollar-equivalent starting value.

### D. Project Accomplishment (OUTPUTS)

	<u>Planned</u>	<u>Actual</u>
ADF Established	1	1
Board Appointed	1	1
Staff Hired	9	11
Annual Research Program	4	4
Proposal Review System	1	2
Endowment Fund Capitalized (RD\$ Million)	3.7	4.9
Research Grants Approved (RD\$ Million)	8.5	4.6
Quick Response T.A. (Individuals)	12	32
Researchers Trained	830	1,614

The ADF-related EOPS within this Project is a "private foundation providing funding, quality control, and dissemination of agricultural technology". This EOPS is accomplished.

#### **E. Progress Towards Achievement of Project Purpose**

The Purpose of the ADF component of the CFS project was to promote economically justifiable research in non-traditional crops, to establish a rapid response capability for agribusiness and farmers, to improve the quality of research through operation of a technical information center, and to establish an Endowment Fund to support the Foundation. Fifteen research grants; a dozen rapid response TA exercises; extensive technical training, and the establishment of an information center responding to production inquiries and distributing research findings; and the capitalization of an Endowment Fund at more than twice the Peso level originally sought indicate that real progress has been made on all four of these fronts.

#### **F. Project Design Adjustments**

Two formal amendments occurred: the first, four months after Project authorization (1987), revising the counterpart calculation in accord with changed exchange rates; and the second in February, 1988, extending the PACD by one month to allow for four and one-half years of Grant-funded TA.

#### **G. Requirement for Continued Monitoring**

There is no formal requirement for continued monitoring by A.I.D.

#### **H. Requirement for Further Data Analysis**

##### **1. Audit**

An Audit of the ADF's fund accountability statements, internal control structure, and compliance with the Grant Agreement was completed in December, 1992 by Price Waterhouse and is under review by the ADF and the Mission. It is expected that there will be a number of recommendations to follow up on when the final report is issued.

##### **2. Evaluation**

A mid-term internal management evaluation was carried out in 1990.

# I. Summary of Lessons Learned

Perhaps the most significant lesson here is the importance of sponsorship. This project enjoyed strong support in the necessary technical, business, and political circles, and in consequence was successful in attaining recognition and --the acid test-- a continuing flow of private cash donations.

A collateral lesson is the value of self interest in project design. Basically this project was set up by its intended beneficiaries, so the design reflected real demand, and there was a continuing interest in its activities and offerings.

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**PROJECT ASSISTANCE COMPLETION REPORT**

**Commercial Farming Systems, 517-0214**

**Rural Financial Services Component**

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## **A. Brief Project History**

By the mid-1980s it was evident that non-traditional agricultural products offered great economic promise for the Dominican Republic, but critical constraints existed in the financial markets serving agriculture. The Commercial Farming Systems (CFS) Project was authorized on June 1, 1987. The CFS project goal was to contribute to sustained and equitably distributed economic growth by accelerating the movement of the Dominican agricultural sector into non-traditional crops, thereby increasing small farmer incomes and rural employment, and earning or saving foreign exchange. The overall purpose was to increase production of non-traditional crops through expanded farmer linkages with agribusiness, and direct access to credit and improved technology. The Rural Financial Services (RFS) component of the Commercial Farming Systems Project was authorized on June 1, 1987 for 4 1/2 years with a total Life of Project funding level of US\$2,115,000. The purpose of this component was to improve access to financial services on the part of the rural population in the Dominican Republic. The RFS strategy was to expand and strengthen base-level rural financial institutions that could capture savings of farm and non-farm rural clients for on-lending within the rural economy, and establish banking relationships between these base-level institutions and private banks, to further increase access to financial services for rural clientele.

The Grant Agreement was signed with the Central Bank on August 31, 1987, obligating a total of US\$2,115,000. The Project was scheduled to begin on January 1, 1988 with a PACD of June 30, 1992. The Grant was managed by the Central Bank's Rural Financial Services Office directly under the Department for the Administration of Special Resources (DARE). This office was staffed by twelve Dominican employees, and its activities were coordinated by a Board of Directors composed of officials from the Central Bank.

## **B. Delivery of Project Inputs**

The Rural Financial Services component of the Commercial Farming Systems Project consisted of the following elements:

**Technical Assistance:** Short and long-term technical assistance was provided by S&T/RD's Experimental Approaches to Rural Savings Cooperative Agreement with Ohio State University (DAN-5315-A-20-2070-00). The long-term Advisor provided technical input for the strengthening and expansion of rural credit unions, as well as policy discussion with the Agricultural Development Bank

used to guide policy dialogue and research within the Central Bank on issues of macroeconomic adjustment and financial reform. The funding budgeted for long and short-term technical assistance was US\$1,811,000, and the contract was awarded at \$1,800,679. Of this amount, US\$1,279,637 was disbursed by A.I.D. by December 31, 1992.

**Equipment:** The Project budgeted US\$53,000 for purchase of three vehicles, computer equipment worth US\$19,040, and two Ford Explorers worth US\$35,920 to replace two vehicles purchased under the RSM Project in 1984. Expenditures for equipment totalled US\$54,960.

**Training:** The Project budgeted US\$62,000 for international training. Two trips were conducted. RFS project staff went to Panama City, Panama to visit the Latin American Confederation of Savings and Loan Cooperatives (COLAC), and credit union staffers went to Madison, Wisconsin to visit the World Council of Credit Unions (WOCCU). Total expenditures under this line item were US\$18,736.

### C. Counterpart Contribution

Counterpart funding was budgeted at no less than US\$1,783,000, then equivalent to RD\$6,152,240. These funds were to be used to cover the administrative expenses of the RFS office in the Central Bank (RD\$3,922,683), Research (RD\$41,830), Revolving Credit Funds (RD\$1,654,644), Training and Dissemination (RD\$434,789), Equipment (RD\$38,281) and Contingencies (RD\$60,013). The final disbursement of local currency for this component of the project was received by the RFS office in the Central Bank in July 1990. It is estimated that all but RD\$225,504 of the budget for operational support will be expended. The Central Bank also provided office space and supplies.

### D. Project Accomplishments (OUTPUTS)

<u>Rural Savings Mobilization</u>	<u>Planned</u>	<u>Actual</u>
New Credit Unions Formed	10	6
Contacts with Existing CUs	21	14
CU's Mobilizing Savings:	31	15
CU Personnel Trained:	2,135	1,206
CU Savings Mobilized, RD\$ 000	18,056	65,200
CU Loan Portfolio, RD\$ 000	14,444	52,157

The Project helped BAGRICOLA achieve greater financial independence and administrative efficiency through the support of deposit mobilization efforts. BAGRICOLA had been entirely dependent on external resources from international donor and lending institutions prior to the implementation of this Project. Since then, BAGRICOLA has mobilized over RD\$180 million in deposits from 150,000 rural clients. Almost 50% of the Bank's current loanable funds are sourced from these deposits. Policy and research dialogue has led to some modification of the Bank's subsidized agricultural credit which has dominated operations since the Bank's creation in the mid 1940's. Today a large portion of the Bank's lending operations are conducted at market rates of interest.

The Project provided access to financial services to over 22,000 primarily middle and lower income members of rural credit unions. The technical assistance and local training provided to rural credit union personnel and members has been instrumental in the financial and economic viability of a group of 14 credit unions in the rural areas, whose deposits have risen from RD\$7.6 million in December, 1987 to RD\$59.5 million in December 1991.

#### **E. Progress Towards Achievement of Project Purpose**

The RFS component of the CFS Project was successful in demonstrating that rural savings systems can be successfully established to address the lack of access to financial services on the part of the rural population despite the fact that the Project was implemented during a severe crisis in the banking system (1988-1992).

#### **F. Project Design Adjustments**

There were no significant design adjustments.

#### **G. Requirements for Continued Monitoring**

There is no requirement for continued monitoring of Project activities since the continued implementation of Project objectives will be carried out through a non-profit association (AIRAC) created by the credit unions in the Project.

## H. Requirements for Future Data Analysis

Since all Project activities by the implementing institutions terminated at the PACD, no requirements for further data analysis or evaluation are necessary.

## I. Lessons Learned

(1) The RFS component demonstrated that weak financial intermediaries, which lack institutional viability, represent one of the major obstacles to the efficient flow of financial resources in support of rural areas of the Dominican economy. The lack of institutional mechanisms to mobilize and intermediate domestic savings limits growth as it starves the rural economy of the capital required for productive investment. The rural economy generates ample domestic savings which can be mobilized in a cost effective manner by different types of financial intermediaries, as demonstrated by the BAGRICOLA and the rural credit unions. The economic agents in the rural setting respond to incentives to save, especially in the form of lower transaction costs.

(2) Effective institutional development of financial intermediaries can best be achieved through an aggressive policy of domestic savings mobilization. A significant input required to achieve this result in the D.R. was the provision of technical assistance and training. In addition to not being necessary, external credit (e.g. from donor agencies) tends to undermine the financial viability of these institutions.

(3) Prudential external supervision of the financial intermediaries is critical to maintain the stability of the system.

(4) Modest pilot project activities in the field can have an impact on the decisions of policy makers.

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**Commercial Farming Systems - 517-0214**

**Bridge Credit Fund Component**

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## A. Brief Project History

By the mid-1980s it was evident that non-traditional agricultural products offered great economic promise for the Dominican Republic, but deficiencies in the financial market were impeding both export and domestic production efforts by farmers and agribusinesses. Agribusinesses themselves began to offer production financing to their individual suppliers, an approach that drew many smaller farmers into agricultural diversification. Demand began to outstrip the financing which agribusinesses could offer from their own (or borrowed) capital, while banks remained reluctant to extend credit secured only by the promise to deliver a crop. The Bridge Credit Fund was created as part of the Commercial Farming Systems (CFS) Project to provide the capital these agribusinesses would need to expand their offering of short-term working capital -- commodity inputs, technical services, and cash -- to tied individual producers. The CFS project goal was to contribute to sustained and equitably distributed economic growth in the Dominican Republic by accelerating the movement of the agricultural sector into non-traditional crops, thereby increasing small farmer incomes and rural employment, and earning or saving foreign exchange. The CFS project purpose was to increase production of non-traditional crops through expanded farmer linkages with agribusinesses and direct access to credit and improved technology. The purpose of this Bridge Credit component of the Project was to increase the incomes and broaden the commercial farming experience of approximately 6,000 farmers.

The Fund was established with a \$10 million A.I.D. Loan to the GODR represented by the Technical Secretary of the Presidency, complemented by a counterpart contribution equivalent to US\$2.5 million. The Fund was to be administered by the GODR Banco de Reservas, which would distribute funds among local participating financial institutions, which in turn would lend to the agribusinesses which would provide credit to their production suppliers i.e. "outgrowers". The Loan was signed on September 15, 1987, with an initial obligation of \$3 million, which was increased to \$7,580,000 by Amendment No. 1 on June 24, 1988. The Loan is repayable in 25 years, with interest charged at 2 percent for the first five years, 3 percent for the second five years, and 5 percent thereafter, and a ten year grace period on repayment of principal. A.I.D. discontinued lending after this Amendment, and on September 22, 1989 Amendment No. 2 added the third tranche of \$2,420,000 as a Grant, bringing the total A.I.D. financing up to the \$10 million originally authorized. The Conditions Precedent to disbursement were met in December, 1988.

The entire Grant and all but \$945,837 of the Loan were drawn down by the July 31, 1992 PACD, and more than double the number of targeted farmers had received credit from the Fund.

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## B. Delivery of Project Inputs

Inputs were originally scheduled as the "the local currency equivalent of US\$12.5 million and any interest earned on such principal." However, due to disruptions in local financial markets and a severe depreciation of the Dominican Peso against the Dollar during the four years of Project execution, the A.I.D. and GOOR inputs were recalculated at RD\$42 million and RD\$8 million respectively. At the conclusion of the Project, RD\$38.3 million in subloans had been approved, with an A.I.D. Loan balance of US\$945,837 left unused. While the number of subloans approved was only 91% of the number originally planned, the number of growers receiving credit was 212% of the original target, suggesting that this credit went out in smaller units and reached further down the economic scale than originally expected.

## C. Counterpart Contribution

The number of Pesos necessary to meet the original counterpart requirement of the Peso equivalent of US\$ 2.5 million rose throughout the Project term, but PIL No. 15, issued April 5, 1989 set a fixed figure of RD\$8 million. This requirement was exceeded by the STP, which contributed RD\$ 12.8 million of PL-480 proceeds to the Project.

## D. Project Accomplishments (OUTPUTS)

	<u>Planned</u>	<u>Actual</u>
Intermediate Financial Institutions	10	15
Subloans Approved (RD\$ Millions)	42.1	38.3
Outgrowers Receiving Bridge Credit	6,000	12,713

This component looked to the following EOPS: Thirty-seven agribusinesses using outgrower contracts will have been financed, involving 6,000 small and medium-scale producers; and will generate approximately US\$12 million of increased value added in agriculture per year beginning in year four. Although far fewer agribusinesses (eight instead of 37) than planned participated, they provided more than double the number of credits anticipated. Value-added data for the fourth year of the Project (1992) are not yet available.

## **E. Progress Towards Achievement of Project Purpose**

The Purpose of this component was to increase the incomes and broaden the commercial farming experience of approximately 6,000 farmers. This was to be achieved by expanding the linkages between small/medium scale producers and agribusinesses by offering additional credit tied to increased agribusiness-outgrower contracting. This scheme was expected to permit firms to undertake highly controlled production without having to own land or hire field labor, while involving large numbers of small farmers who typically do not have access to formal market credit, thus improving rural incomes and income distribution. There has been no formal evaluation of the extent to which this purpose was achieved; however, the accomplishments noted in previous sections suggest these linkages were significantly expanded, while participating farmers' production skills and incomes improved.

## **F. Project Design Adjustments**

There were four adjustments: (1) three months after Authorization the Banco de Reservas was substituted for FIDE; (2) cash input values were recalculated several times as the Peso fell against the Dollar; (3) the third A.I.D. tranche of \$2,420,000 was provided as a Grant, rather than a Loan, due to A.I.D.'s discontinuance of lending; and (4) \$945,837 of Loan funds were not utilized.

## **G. Requirement for Continued Monitoring**

### **1. Continuing Covenant**

In Loan Agreement Section 6.3, Support of Commercial Farming, the STP:

"(b) agrees, over the repayment period of the Loan, to require the Depository Bank or its successor to utilize the principal repayments made by the PFIs for lines of credit which meet the original purpose and objectives of the Project". An annual financial statement from the Banco de Reservas, accompanied by an independent auditor's certification, should allow the Mission to monitor compliance with this Covenant.

### **2. Loan Repayment**

Loan payments will be due for the next 22 years.

## **H. Requirement for Future Data Analysis**

This component has been a success in achieving its immediate and readily measurable targets. A formal evaluation in another year or two might offer useful insights into (1) its effect on exports, FX earnings, and local incomes and income distribution;

and (2) how a successful A.I.D. project proceeds after A.I.D. drops out of the picture.

## **I. Lessons Learned**

This component built on an informal financing scheme already set up by agribusinesses and farmers; effective demand was proven before the project got underway. The lesson: added investment in an on-going venture may offer a greater development return than a more innovative startup exercise.

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Clearance:

COM:WButler	(in-draft)	Date: 4/1/93
POO:ASchoepfer	AS	Date: 9/13/93
DIR:FConway	FC	Date: 11/1/93
DIR:RRifenburg	RR	Date: 5/2/93